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SIPDIS

SENSITIVE

AMMAN PLEASE PASS TO VISITING TREASURY ACTING A/S GLASER

E.O. 12958: N/A

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SUBJECT: SCENESETTER FOR VISIT TO EGYPT OF ACTING A/S OF
TREASURY DANIEL GLASER

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Summary

1. (SBU) In May 2002, Egypt passed a law criminalizing money laundering, which included terrorist financing within the scope of crimes covered by the law. The GOE has also used restrictions on NGO financing to combat terrorist financing. These restriction, however, have also impeded legitimate NGO activities supporting by the USG, such as building civil society and combating Islamic extremism. The anti-money laundering law established a financial intelligence unit (FIU), the Money Laundering Combating Unit (MLCU), which became fully operational in March 2003. The MLCU has worked with the Financial Action Task Force (FATF) over the past two years to remove Egypt from the latter's list of Non-Cooperative Countries and Territories (NCCT). Egypt does not have a large money laundering problem, and the MLCU has only prosecuted three cases since 2003. However, potential avenues for undetected money laundering still exist, including under invoicing of imports/exports and the unofficial "hawala" funds transfer system. The MLCU has identified its future training needs and the USG has provided various training/assistance programs in the past two years. With anti-money laundering procedures in place, post does not anticipate Egypt becoming a money laundering center. End summary.

Anti-Money Laundering

2. (U) Money laundering has been a crime in Egypt since May 2002, when the GOE passed Anti-Money Laundering Law No. 80. The law, which closely paralleled FATF guidelines, criminalized money laundering from narcotics trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. It mandated the "know your customer" policy, requiring banks to keep all records for five years; required "suspicious transactions reports" (STR) from the full range of financial institutions; and prohibited the opening of numbered or anonymous financial accounts. It did not repeal Egypt's law on bank account secrecy, but provided legal justification for provision of account information to civil and criminal authorities.

3. (U) The anti-money laundering law also contained provisions protecting "whistle blowers" and holding financial managers responsible for money laundering activities involving their organizations. It stipulated that importation of more than \$20,000 in cash must be documented, but placed no restriction on export of currency (Note: The executive regulations are ambiguous on this point, as they state that travelers with the equivalent of \$20,000 in cash are subject to specific reporting requirements. End note). The law also provided for fines, prison sentences, and asset forfeiture, with the possibility of sharing forfeited assets with other jurisdictions on the basis of bilateral or multilateral agreements. It implied, but did not explicitly state, that such forfeiture applied to money and property.

4. (U) The law also created the MLCU, an FIU that officially began operating March 1, 2003. The MLCU is an independent entity within CBE, with its own budget, staff and authority to examine STRs and conduct investigations with counterpart law enforcement agencies. In June 2003, Egypt's parliament amended Article 17 of the law, closing a loophole that offered broad immunity for certain money laundering-related offenses if the defendant turned state's evidence. The executive regulations of the amendment identified predicate crimes associated with money laundering (including those originating outside Egypt); defined the role of supervisory authorities and financial institutions; and allowed for exchange of information with other countries to combat money laundering. The regulations also created a Board of Trustees for the MLCU, headed by Deputy Minister of Justice Serry Seyam and including representatives from various GOE ministries.

Terrorist Finance

15. (U) As noted above, Egypt's anti money laundering law specifically criminalized money laundering from terrorism and terrorist financing (as defined in Article 86 of Egypt's penal code). Because of its own problems with domestic terrorism, the GOE is eager for closer international cooperation to counter terrorism and terrorist finance. Egyptian authorities have cooperated in U.S. efforts to seek and freeze terrorist assets, circulating to all of their financial institutions lists provided by the U.S. under E.O. 13224. While the MLCU still lacks experience, the GOE is very eager to work with the U.S. and other countries via UN resolutions to combat the financing of terrorism.

16. (SBU) For the past decade the GOE has had restrictions on receipt of or disbursement of financial donations from Egyptian NGOs to or from foreign entities. While such restrictions may help the GOE control terrorism, they have also impeded advancement of other USG priorities in Egypt, such as building civil society and combatting Islamic extremism. The GOE has used an overly restrictive NGO law to control the actions of legitimate civil society organizations. While supporting the GOE on their successful control of terrorism, the USG also needs to emphasize its objection to GOE measure that hamper efforts to fulfill President Bush's goal of expanding freedom and democracy in Egypt.

International Cooperation

17. (U) The FATF reviewed Egypt's anti money laundering regime in January 2004 and removed Egypt from its list of Non-Cooperating Countries or Territories in February 2004. The U.S. FinCen provided the MLCU with an orientation visit to the U.S in 2004 and sponsored the MLCU's entry into the Egmont Group in June 2004. Egypt is now sponsoring Algeria and Qatar for membership in Egmont and is co-sponsoring Yemen with the U.S. Egypt also played an important role in the founding of the MENA FATF. Egypt has a number of bilateral cooperative agreements, including one with the UK, and is a party to most international conventions aimed at blocking terrorists' access to funds. It has signed but not yet ratified the Vienna Convention, the Convention for the Suppression of Financing of Terrorism, and the Palermo Convention.

Egypt's Money Laundering Problem Small

18. (SBU) Information about financial and other assets frozen and/or seized in connection with money laundering investigations is not generally a matter of public record in Egypt. According to officials at the MLCU, three money laundering cases have been prosecuted since 2003. One case was related to drug trafficking and the other two involving antiquities smuggling. Post is aware of only one instance (reported in 2002) of the GOE freezing assets discovered in connection with one of our terrorist lists. The CBE has an STR link on its website, but according to officials at the MLCU, no banks have submitted STRs.

19. (SBU) There is no evidence of official involvement in or encouragement of money laundering. Some observers estimate that, of the small amount of money laundering present in Egypt, most is related to domestic narcotics traffickers, while the rest is attributed to other domestic organized crime or political extremist groups. In the last few years the level of non-performing loans (NPLs, or bad debt) in the Egyptian banking system has become a major economic and political issue. Several well-known businessmen and at least two bank chairmen have been arrested and charged with having given or received loans on the basis of fraudulent requests, with the money then allegedly funneled into bank accounts overseas. It is not clear how much, if any, is linked to money laundering.

10. (SBU) The GOE says that under invoicing of imports and exports by Egyptian businessmen is a relatively common practice. The primary goal for these businessmen appears to be avoidance of taxes/customs fees. It is unclear to what extent these price manipulations may be used for laundering the proceeds of other crimes. Worker remittances also form a potential area for financial transactions outside the formal, regulated financial system. Numerous Egyptian expatriates living and working in the Gulf and elsewhere send earnings back to Egypt. Post suspects that some portion of this is done through informal channels such as "Hawala" rather than through the banking system, because of lack of trust or lack of familiarity with banking procedures and the lower

transaction costs in the informal systems. Neither the GOE nor most bankers in Egypt appear to be well acquainted with the term (or even the concept) of "Hawala," although some suggest it may exist to a limited extent.

MCLU Training Needs

11. (SBU) The MCLU has identified a three-pronged approach to improving anti-money laundering capacity in the banking system:

- CBE's Egyptian Banking Institute (EBI) is designing an Anti-Money Laundering Regional Certificate Program that will be a six month training course for bank officials. EBI plans to invite lecturers/trainers from international financial institutions and would like to include visits to FIUs, including the U.S. FinCEN, in the course;

- Training for Egyptian officials from various government agencies (Ministries of Interior and Justice, the Administrative Control Authority, the National Security Agency, etc.) involved in the tracking and prosecution of financial crimes and enforcement of financial crime legislation. The MCLU envisions this training primarily in the form of visits to the FIUs of other countries.

- Purchase of software to allow tracking and reporting of suspicious financial transaction and connect the MCLU to international FIUs.

U.S. Assistance to Egypt

12. (U) After the FATF conducted an assessment of the GOE's training assistance needs in March 2004, the USG committed to funding a resident legal advisor to assist in getting Egypt's FIU. A legal advisor was never identified or funded, but the following training has been provided:

- Federal Deposit Insurance Corporation: Provided one week training course in Washington in March 2005 on money laundering/financial transaction tracking. Attendees included two reps from MLCU and 4 reps from CBE's Financial Control Unit.

- Internal Revenue Service: Provided, through Federal Law Enforcement Training Center, an in-country training course in September 2004 on enforcement of anti-money laundering/narcotics/financial crime laws. Attendees included Ministry of Interior officials and police officers.

- Federal Reserve Bank: Provided assistance (lecturers, training material) to bank management/regulation courses conducted by the Egyptian Banking Institute (EBI). The most recent course was held in autumn of 2004. Attendees at EBI courses include banking and government regulatory officials from the Middle East/North Africa region.

- USAID: Through Capital Market Authority Development Program provided various in-country and Washington-based training courses from 2002-2004. Attendees included judges and prosecutors handling money laundering and other financial crime cases.

13. (SBU) Comment: Egypt is neither a regional financial center nor a major center for money laundering and has no offshore financial sector. Its economy is largely cash-based and despite recent easing of financial regulations, still has too many restrictions to make it a preferred destination of money launderers. With a money laundering law and regulations in place, a functioning FIU and close cooperation with other countries on combating of terrorist financing, post does not anticipate Egypt become a money laundering center even as it continues to reform its financial sector. End comment.

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